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THE PRUSSIAN INCOME TAX.

To the student of political science the legislation enacted in the last session of the Prussian Landtag is of more than usual interest and importance. No session for several years has been so fruitful in reform measures,—an outbreak of legislative activity which is directly traceable to the initiative of the energetic young emperor and his new ministers. The present Landtag was elected in 1888, but in the two sessions held under the ministry of Bismarck it did little more than discuss and accept the annual budgets. Under the new *régime* it may perhaps merit the title of the reform Landtag sometimes bestowed upon it by the German press.

None of the reforms attracted more attention or had been more generally demanded than that of the income tax. This tax has existed in Prussia since 1851, when it was introduced to supplement or reform the class tax which had been adopted in 1820. This, in turn, had as its forerunner the uniform personal or poll tax of 1811, which was the beginning of direct personal taxation in the Prussian state, and may be regarded as the germ of the present progressive income tax, the historical development of which is an interesting and instructive study.

The poll tax of 1811 was a modest beginning. It was confined to the country districts, where it collected one groschen a month, amounting to one-half thaler a year, from all persons over twelve years of age, without regard to differences of wealth or social station. It was not adopted to increase taxation, but simply to replace as a source of revenue the grist tax, which had been introduced a year before, but had given rise to so much dissatisfaction and evasion among the peasants and farmers that its retention outside of the cities was thought inadvisable. The poll tax proved more acceptable to the country people, and less difficult to collect.

This was a period, however, when other and more radical

tax reforms were imperatively demanded. As a result of the Napoleonic wars and of political changes and constitutional reforms, the public revenues had become altogether insufficient for the needs of the state, and an increase of taxation could not be avoided. In 1812 a premature attempt was made to introduce a general property and income tax; but the rates were unreasonably high, the income tax being 5 per cent. on all incomes above 300 thalers, 1 per cent. on those between 100 and 300 thalers, while incomes under 100 thalers were taxed in two classes with the annual rates of $\frac{3}{4}$ and $\frac{1}{2}$ thaler. The property tax, which, however, had in part the nature of a forced loan, was 3 per cent. "A burden so excessively heavy," says Cohn,* "could only be imposed by the state in case of the direst need, and then only temporarily." The edict was repealed in less than a year and a half after its promulgation, and must be regarded as an episode rather than a chapter in the continuous development of the Prussian income tax. It may be said, however, to have had a certain negative effect on subsequent legislation, since it was doubtless one cause of the disfavor with which for a long time afterwards an income tax was regarded.

After this failure the Prussian statesmen turned their attention to the reform of the indirect taxes. By 1820 this had been carried as far as seemed advisable at the time, and it was estimated that there would still be an annual deficit in the revenues of about 8,000,000 thalers. Any considerable increase of the uniform poll tax was out of the question, for such a tax is by its nature limited to what the poorest citizen can afford to pay. The only alternative was to confine the increase of direct taxation to the more prosperous classes. This it was sought to accomplish by means of a class tax, in which the basis for the assessment was not the tax-payer's income, but his social standing, to which, to be sure, his income would in a rough way correspond. The attempt was made to rate the taxpayers in four distinct social classes, such as had undoubtedly existed in earlier times and had been recognized in the constitutions of mediæval cities. We have good authority, moreover, for believing that in Germany such a classi-

* *Finanzwissenschaft*, p. 415.

fication of society was not unnatural even much later than 1820; for J. G. Hoffmann, one of the most distinguished statesmen of his time, when he wrote his *Lehre der Steuer* in 1840, still believed firmly in the idea of the class tax, claiming that the four classes existed and could easily be distinguished, and Adolf Held, writing in 1872, admitted this, although he did not favor such a tax. "It is not to be denied," he says,* "that socially the four mentioned orders may be distinguished. But, as soon as we depart from the principle of a simple poll tax, it is impossible to adopt the idea of *noblesse oblige* as our guiding principle, and carry out the rule that every one shall contribute more, the higher, on the whole, his social position is. On the contrary, the idea inevitably forces itself into recognition that it is the richer man who should pay more; and, the greater the differences in wealth, the more irresistible will this tendency prove to be."

The tendency was manifest even in 1820. For the true idea of the class tax was not consistently adhered to; and, in the form which the law finally took in 1821, three different rates for each of the four classes were adopted, in order not to ignore wholly the differences of wealth among members of the same class. This made twelve rates in all, and practically twelve classes, and was really a first step in the direction of a classified income tax. The lowest of the monthly rates was the same as the previous poll tax had been,—one groschen; and the highest was 12 thalers. This reform, then, did not diminish taxation for the poorest citizen, but increased it somewhat on the more prosperous classes. The class tax, like the poll tax, was not introduced in the cities; but there its equivalent was to be a grist and slaughter tax, since this was a form of taxation to which the cities had long been accustomed, while a personal tax would have been an innovation not well adapted, it was thought, to the peculiar conditions of city life, mainly because the unstable character of the population would make it difficult to collect such a tax, especially from the poorer classes.

The law of 1821 was regarded by its supporters as a happy

* *Einkommensteuer*, p. 275.

compromise between an income tax and a uniform per capita tax. The former they rejected because it necessitated a minute and vexatious inquiry into the financial condition of the tax-payer, the latter because of the injustice of exacting as much from the poorest as from the wealthiest citizen * and, we may add, because of the impossibility of collecting sufficient revenue by means of it. It seems to have been expected that the class tax would avoid both these evils, and, without intruding into the private affairs of the citizen, would take into account, indirectly at least, differences in wealth, since, after all, the basis of the classification was property or income quite as much as social position. This is clearly seen in the ministerial instructions, according to which the highest class, for instance, was to include large land-owners, wholesale merchants, owners of large factories, large capitalists, etc.; and the general rule to be observed was that "the possession of a property or business of such an extent that the *income* to be expected from it insures the owner an easy and independent existence is enough to indicate that he belongs in this class." At the same time in the next paragraph it is insisted that anything like a true income tax must be carefully avoided as an inferior and degenerate form of taxation. "It is not allowed to resort to the expedient of designating numerically a definite amount of income which shall qualify the owner to be rated in this class, and thereby open the way to discussion on this point with the consideration of the evidence pro and con, lest in this way the tax degenerate (*ausarten*) into an income tax."

Such a law as this had obvious defects and inconsistencies. Yet, as a measure of practical expediency, adapted to the exigencies and circumstances of the times, it has been commended as worthy of the statesmen who originated it. They had before them, as an object lesson, the failure of the tax of 1812. This, as well as other good reasons, convinced them that Prussia

* The ministerial instructions for the assessment of the tax state that "the class tax is intended to occupy a middle position between a uniform poll tax, which imposes the same rate on the entire population with no distinctions, and an income tax, which cannot be enforced without a searching investigation of the affairs and possessions of the tax-payer, and is therefore always obnoxious." The instructions will be found in Held, *Einkommensteuer*, p. 275, note.

was not prepared for an income tax, which was undoubtedly true.* At the same time the class tax did not justify either in theory or in practice the hopes and claims of its supporters. As might be expected of such a compromise, it was not wholly free from the faults of the poll tax and did not possess all the virtues of a true income tax. A minimum annual rate of $\frac{1}{2}$ thaler and a maximum of 144 thalers could not correspond to the wide difference between the incomes of the poorest and those of the richest tax-payers. If the former rate was just, the latter was altogether too low. If the law, moreover, avoided the dreaded vexatious inquiry into the private affairs of the citizen, it relied too much on the unguided and arbitrary judgment of the assessors, who, even with the best intentions, found it difficult to make the required classification. The tendency in the assessment seems to have been towards increasing leniency; for the proceeds of the tax, although in the first instance all that had been estimated, did not increase in the following years in proportion to the increase of population, to say nothing of the increase of wealth. It had been thought that the social pride of the tax-payer would come to the assistance of the assessors, and that he would resent being rated in a lower class than the one to which he actually belonged. This psychological factor may have been effective in some cases; but, in general, the Prussian subject, when it came to the question of taxation, did not seem to aspire to a high social position. One reason probably was that among the people the tax, very properly, never came to be regarded as a true class tax, or a reliable criterion of social distinctions. In 1846 only three hundred and forty-six persons paid the highest rate; and, of the total annual assessment, about 45 per cent. came from the lowest class and only $3\frac{1}{2}$ per cent. from the highest.† Such taxation, while a considerable burden for the

* "The originators of the class tax, with that practical insight which was characteristic of them, realized that an income tax could not at once be introduced in a population where nine-tenths of the households were neither accustomed nor in a position to reckon their receipts and expenditures in money and strike the balance of income. It was likewise perceived that even for the superior and privileged classes of the population an assessment of income made with no personal distinctions was a proceeding as unfamiliar as it was opposed to their conceptions of social rank." Von Gneist, *Preussische Finanzreform*, p. 32.

† Held, *Einkommensteuer*, p. 284.

poor, bore very lightly on the well-to-do and hardly at all on the very wealthy.

Still, no general reform was attempted until the United Landtag met in 1847. Then the government introduced a bill in which it was proposed to limit the class tax to those whose incomes were less than 400 thalers and impose an income tax on all higher incomes. The rate was to be 3 per cent. on the so-called funded incomes—*i.e.*, incomes from property or invested capital, comprising rent, profits, and interest—and 2 per cent. on the unfunded, consisting of the direct earnings of labor in the form of wages, salaries, professional fees, and the like. The bill, moreover, adopted the principle of self-assessment, requiring the tax-payer to declare his own income. The grist and slaughter tax existing, as we have seen, in the larger cities, was to be repealed and give place to the class and income tax. But the times were not ripe for so radical a reform. The proposed measure encountered strong opposition, especially on the part of the wealthier classes, and was finally defeated in the Landtag by a large majority. In a second attempt at reform, two years later, the government made concessions to the opposition by no longer insisting upon the principle of self-assessment or the distinction between funded and unfunded incomes. Although this bill met with more favor, it underwent many changes in the Landtag, and in the end failed to pass.

The successful reform bill, which became law in 1851,* was of a still milder character. The grist and slaughter tax for the large cities was retained. The class tax, confined as before to the smaller cities and country districts, was curtailed by the abolition of the highest class. For the three remaining classes, which were to include all tax-payers having incomes of not more than 1,000 thalers, thirteen rates were prescribed, of which the highest was 24 thalers annually, while the lowest was, as before, $\frac{1}{2}$ thaler. To replace the tax on the highest class, a classified income tax was adopted, to be assessed throughout the entire kingdom on all incomes of more than

*Gesetz, betreffend die Einführung einer Classen- und classificirten Einkommensteuer vom 1 Mai, 1851. The text is given in *Zeitschrift des königlich-preussischen statistischen Bureaus*, Bd. 8 (1868), p. 25.

1,000 thalers, with a rebate of 20 thalers in those cities which were subject to the grist and slaughter tax. The payers of this income tax were divided into thirty classes. In the lowest the annual rate was 30 thalers, in the highest 7,200 thalers. These rates were graded with the intention of collecting 3 per cent. of the minimum income in each class. This made the minimum for the highest class 240,000 thalers; and the amount by which any income exceeded that limit was, therefore, not taxed. No declaration was required from the tax-payer, and the assessment was to be made without "inquisitorial procedure."

In the two previous attempts at reform the main end in view had been a more equitable distribution of the burden of taxation. There had been no expectation of any considerable increase of revenue. But, in framing the law of 1851, the need of more revenue had been the principal consideration. Any sort of income tax which would meet this need was regarded as better than none. It cannot be denied, therefore, that "the Prussian income tax was introduced, not solely from a recognition of its social necessity, but at the same time on account of pressing financial needs."* It is not strange, then, that the law did not fulfil the requirements of an equitable income tax. Its most serious defect was the retention of a maximum limit to the rates. Besides this the classification was not fine enough; that is, the dividing limits between the classes were too far apart. The result was a rather wide variation in the rate per cent. of the tax; for while, as we have seen, it was 3 per cent. of the minimum income in each class, on the maximum income it was in most cases equivalent to only about $2\frac{1}{2}$ per cent. On the whole, it may be said that this reform, like the introduction of the class tax in 1820, aimed principally at an increase in the public revenue, and obtained it by taxing the poor not less and the rich considerably more.

The conditions under which the next reform was accomplished, in 1873, were more favorable, since at that time any increase of taxes was not necessary. On the contrary, the state of the public finances was such—thanks to the French milliards—that the people felt justified in demanding some

* Adolph Held, *Einkommensteuer*, p. 293.

relief from taxation, and it was partly in response to this demand that the reform was undertaken.* The grist and slaughter tax was repealed, to be replaced in those cities where it had existed by the class tax. The latter was now recognized as being, in fact, an income tax which was to be assessed "on the basis of the estimated value of the annual income."† This was only a recognition of what had long been the case in actual practice. Indeed the instructions for the assessment of the tax issued by the finance minister in 1867 had designated numerically certain incomes which were to be treated as *Anhaltspunkte* in assessing the several rates, and stated furthermore that the "presumable income" of the tax-payer was to be regarded as "not indeed the sole determining factor in the assessment, but still the principal one."‡ Other circumstances were also to be considered, whereas the income tax was assessed "solely on the basis of income." This distinction between the two taxes was, on the whole, still maintained in the law of 1873, except as regards the two lowest classes of the income tax. (See pp. 221, 222.)

The maximum income subject to the class tax remained, as before, 1,000 thalers, or 3,000 marks; but now for the first time the law also prescribed a minimum taxable income. The limit selected was 420 marks, all incomes below that being thus exempted from direct taxation. The intention apparently was to exempt all who had previously been assessed with the lowest tax ($\frac{1}{2}$ thaler), which now disappeared from the scale of rates.§ This, we may say, was the final disappearance

* The reform of 1873 increased the direct taxes by 4,733,500 thalers, and reduced the indirect by 6,618,433 thalers. The first assessment of the income tax under the new law yielded 8,187,652 thalers, or about a million more than had been estimated. Camphausen's Report of 1875, quoted in *Zeitschrift des preussischen statistischen Bureaus*, 1875, p. 112.

† Gesetz vom 25 Mai, 1873, § 7. The text is contained in *Annalen des deutschen Reichs*, 1874, and in *Zeitschrift des preussischen statistischen Bureaus*, Bd. 15, 1875. See also A. Held, *Die neuen preussischen Steuergesetze*, in *Jahrbücher für Nationalökonomie*, Bd. 20 (1873), p. 369.

‡ *Zeitschrift des preussischen statistischen Bureaus*, Bd. 8 (1868), p. 26, §§ 19-32.

§ In 1873, out of 9,300,000 persons assessed under the class and income tax 5,000,000 paid the $\frac{1}{2}$ thaler rate. The number actually exempted when the new law went into operation, in 1874, was 6,400,000. See *Zeitschrift des preussischen statistischen Bureaus*, Bd. 15 (1875), p. 112.

of the $\frac{1}{2}$ thaler poll tax of 1811. But, while the reform may have been prompted to some extent by the desire to relieve the poorer classes from the burden of taxation, apparently the difficulty and expense of collecting the tax from such classes, especially in the larger cities, where the class tax was now to be introduced, had the most to do with this new departure.* But, in making the tax progressive,—or better, perhaps, degressive,—there was undeniably the intention of favoring the poor. There were twelve rates, ranging from 3 marks to 72 marks; and the equivalent rates per cent. on the minimum income of each class increased gradually from $\frac{5}{7}$ per cent. in the lowest class to $2\frac{2}{3}$ in the highest. The tax on the incomes at the lower end of the scale was reduced, while at the upper end it remained about as it was before.

In the income tax the rates were, as before, equivalent to 3 per cent. of the minimum income of each class. But the number of classes was increased, and, more important still, the maximum limit to the tax was removed.† Incomes up to 780,000 marks were rated in forty classes, and beyond that point the tax increased 1,800 marks for every 60,000 marks' increase of income. The same line of reform was carried a step farther in the years 1880 to 1883. An increase of revenue, derived principally from the imperial tariff and tobacco tax,—the proceeds of which, in excess of 130,000,000 marks, are divided among the states in the form of the so-called *Ueberweisungen*,—made a reduction of direct taxation possible, which, it was felt, should accrue to the benefit of the poorer classes. With this end in view, the two lowest rates of the class tax were abolished, thus exempting all incomes up to 900 marks,‡ and the other rates were reduced, as well as the

* It was shown, for instance, that in the district of Königsberg the collection of the class tax from those assessed with the lowest rate had required 354 attempts to levy execution, of which 167 were unsuccessful. Cohn, *Finanzwissenschaft*, p. 428. See also *Annalen des deutschen Reichs*, 1874, p. 943.

† The removal of this limit raised the tax of twelve persons, producing an increase of 350,000 marks in their total contribution. Cohn, *Finanzwissenschaft*, p. 428.

‡ The government proposed to carry the exemption still farther (up to 1,200 marks); but the Landtag was not willing to do this, and 900 marks still remains the maximum income exempt from direct taxation.

two lowest rates of the income tax, so that the principle of degressive taxation now applied to all incomes under 4,200 marks.

Such had been the development of the class and income tax down to the reforms of the present year. The law of June 24, 1891, like that of 1873, has been enacted under favorable financial conditions, which relieved the government from the necessity of asking for any increase of taxes; and, while the reform can hardly fail to make the tax more productive, a guarantee has been given that any such result shall not accrue to the benefit of the public treasury, but lead to a relief from some other form of taxation or else to a reduction in the rates of the income tax itself. This time it was the net earnings from the state railroads, which, as Cohn says, made it possible to indulge in the luxury of distinguishing between a reform of the public finance and an increase of public revenue,—an indulgence which he seems to regard as very improvident, if not enervating.*

But, if fiscal motives be wholly wanting in the new law, — which, after all, there is some reason to doubt, † — it only adds to the interest and significance of the reform, since, if the burden of taxation is to remain the same, but be more justly distributed, we may draw some inferences as to what ideals of just taxation find favor in Prussia at the present time, even if we must premise that, as is usual in tax reforms, considerations of practical expediency have had quite as much weight as notions of abstract justice.

The new law ‡ introduces important changes in the method of assessment, the classification, and the rates. The class tax is no longer retained, and the incomes on which it was

* Cohn, *Die preussischen Steuerreform*, in *Jahrbücher für Nationalökonomie*, Bd. 56 (1891), p. 20.

† Cohn designates the provisions in reference to the application to be made of any increase in the tax as “*nichts als eine taktische Massregel der Regierung gegenüber dem Landtage.*” *Jahrbücher*, p. 52.

‡ See *Das neue Einkommensteuergesetz für die preussische Monarchie, ergänzt und erläutert . . . von R. Höinghaus; or Einkommensteuergesetz vom 24 Juni, 1891, nebst Ausführungsanweisungen . . . amtlichen Mustern, u. s. w.*, von P. Krause.

formerly assessed are now properly included under the income tax; but there is still a distinction as regards the method of assessment, since these incomes are, as before, to be estimated without, as a rule, requiring any declaration from the tax-payer, while for incomes above 3,000 marks a declaration is required. This important reform, which has repeatedly been rejected by the Landtag, now encountered but little opposition,* and is a significant departure from the principles on which the assessment has heretofore been conducted. The law of 1851 was very explicit in the assurance it gave the tax-payer that there should be no intrusion into his private business affairs. To be sure, the chairman of the board of assessors was to collect the fullest possible information in regard to the financial condition of the tax-payers, but only in so far as it could be done without a too searching inquiry,—*ohne tieferes Eindringen*. The other members of the board were to subject the chairman's results to a careful examination, in which they were to make use of all sources of information at their command. But here again all intrusive inquiry—*jedes lästige Eindringen*—was to be avoided. Even when an appeal was made against the assessment, the proper tribunal must endeavor to get at the truth by the less rigorous method above described, before it exercised the right to institute a more thorough investigation and require definite statements from the appellant, summon witnesses, and so on.† These provisions were not repealed or altered in 1873. The results of this method of assessment have proved very unsatisfactory. Outside of fixed salaries very few incomes have been assessed at their full value; and, as might be expected, the wealthier tax-payers were generally the ones who profited most by this leniency. Of course, from the nature of the case, any estimate of the extent of this undervaluation must be inaccurate. Yet it

*The declaration had been a feature of the unsuccessful income and property tax of 1812. It was strongly advocated by Stein and other leading statesmen of that period, but was rejected when the class tax of 1820 was adopted. It was rejected again in 1847, 1851, and 1869. In 1873 the government, although recognizing it as a desirable method of assessment, did not venture to propose it, feeling certain that the Landtag would not adopt it. See *Anna'en des deutschen Reichs*, 1874, p. 939.

† Gesetz vom 1 Mai, 1851, §§ 22, 23, 26.

seems to be the general opinion in Prussia that, on the average, incomes have been rated at less than one-half or even less than one-third their true value; and this means that in individual cases the undervaluation has been far greater.*

Hereafter the Prussian tax-payer must make out a written return of his income, if it exceeds 3,000 marks, entering it under the following four heads: 1. Income from invested capital; *i.e.*, interest and dividends. 2. Income from real estate,—*aus Grundvermögen*,—whether derived from its use or its ownership or both. 3. Profits or the earnings from trades, industries, and mines. 4. Wages, salaries, professional earnings, or pensions, annuities, or other sources of periodical income not included under the first three heads. It is only necessary to give the lump sum under each head without any further specifications.† No oath is required, but simply an affirmation of the truth of the statement. These returns are subjected to the supervision of a county (*Kreis*) board of assessors, the majority of whom are elected in the county or assessment district, while the minority, including the chairman, are appointed by the government. If the tax-payer refuses to declare his income, he loses, in the first instance, the legal right of complaint or appeal against the official assessment; and, in case of a second refusal, the assessment is increased 25 per cent. False declarations, wilfully made, are punishable with heavy fines.‡ In this way, it is expected to obtain approximately correct returns. Whether this expectation will be realized remains to be seen; but there are good reasons to believe it will not, especially as this change is accompanied, as we shall see, by an increase in the rates on large incomes. In this connection, I may quote the opinion of Professor Delbrück of Berlin, expressed in the way of comment on a notorious case, which came up in the courts recently, where it was proved that a group of wealthy tax-payers had been assessed altogether too low:—

The Bochum tax case is seasoning for the new income tax law. The rich men in that place have almost all been assessed too low by half

* See *Annalen des deutschen Reichs*, 1874, pp. 929 and 339; also Cohn, *Die preussische Steuerreform*, in *Jahrbücher für Nationalökonomie* (1891), Bd. 56, p. 31; and Delbrück, as quoted below.

† Gesetz vom 25 Juni, 1891, §§ 12-15 and 24.

‡ *Ibid.*, §§ 30, 34, 35, 66.

and two-thirds, and to such a scandal as that, it is said, the declaration ought to and will put an end hereafter. "Ought to." Yes, but "will" as well? In the first place, I dare make the assertion that in the entire monarchy the case is the same as in Bochum. Select at random any city or county, subject it to the same test, and you will reach the same results. Without doubt the declaration will secure better returns than the previous method of assessment. For once we will venture to prophesy, and say that (apart from the new tax on corporations and the higher rates) it will secure an increase of from 25 to 30 per cent. Had it not been for the Bochum case, we would have said 25 per cent.; but the alarm which this affair has occasioned may well help us to 30 per cent. But by how much was the assessment too low in the Bochum case? By one-half to two-thirds, and even more. This amount will not come to light even under the new system. . . . So long as we have not reached an inheritance tax and a considerable reduction in the communal sur-taxes, the declaration will be of little benefit. The strictest control and a reasonable moderation in the rates,—without these two wheels it is impossible to set the wagon going. (*Preussische Jahrbücher*, July, 1891.)

The assessment of incomes, then, in Prussia, has not been so very much better than that of personal property in America; nor is it certain that the new law is going to solve the problem for the former country. Yet in Prussia there is an efficient and reliable civil service; and the private citizen, moreover, is accustomed to submit to a good deal of investigation of his affairs on the part of the public authorities. All this renders the success of such a law more probable there than in America, where, indeed, the attempts already made in certain States to secure correct returns of personal property by means of declarations have proved wholly ineffectual.*

In grading the incomes, the new law has made the divisions much finer than before. There are now 75 grades or classes for incomes from 3,000 up to 120,000 marks, while under the law of 1873 there were only 27, and before that 19. Beyond this point the increment of increase in the new classification is 5,000 marks, while in the old it was for a few grades 24,000 marks, and finally mounted to 60,000. As a result of this change, it is now necessary to ascertain the tax-payer's income

* See Ely, *Taxation in American States and Cities*, p. 146 *et seq.* The failure of our personal property tax is admitted by all who have been familiar with its workings. But whether, in the event of the adoption of income taxes in our States, a correct assessment would be much easier may be doubted. We could hardly hope for better results than in Prussia.

with an approach to accuracy which was not required before, and would at any rate be impossible without the declarations. Under the former classification, the assessors, even though they were required to avoid *jedes lästige Eindringen*, might perhaps decide with some confidence that a man's income was, for instance, somewhere between 60,000 and 72,000 marks. Any variation within these limits could be neglected, since it did not affect the rate. Under the new law, however, there are now seven classes within the same limits; and it is necessary to decide whether, in the given case, the income is between 60,000 and 62,000 marks, or between 62,000 and 64,000, and so on, thus implying a pretty exact knowledge of the financial situation of the tax-payer, such as could hardly be obtained without his co-operation. Moreover, when once the income is ascertained, the new classification will have the effect of increasing the tax in most cases, for the reason that, under a classified income tax, the amount by which any income exceeds the minimum limit of the class in which it is rated is practically untaxed. The narrower the classes, therefore, the smaller these portions of untaxed income must be.*

Of especial importance are the changes which the law has made in the rates.† Beginning with the lowest class, which includes incomes from 900 to 1,050 marks, the tax is 6 marks, being equivalent to about .62 of 1 per cent. of the mean income. This rate increases until it reaches 3 per cent. on an income of 10,000 marks, which, it will be remembered, was the uniform rate per cent. of the former income tax. In the ministerial bill the progression ceased at this point; and thereafter the rate was uniformly 3 per cent. of the mean income in each class.‡ But the Lower House of the Landtag was not content with this. Unlike its predecessor of 1847–51, it was more radical than the government, and in the bill as

* If illustration be needed, take the case considered above, and we see that formerly an income of 72,000 marks was taxed no more than one of 60,000 (or, strictly, 60,001 marks). Here, then, were 12,000 marks of income practically untaxed. Under the new classification, the untaxed portion of any income at this part of the scale could not exceed 2,000 marks. See Appendix Table, p. 226.

† See § 17 of law of 1891.

‡ The ministerial bill, with the official explanation of its provisions, is in the *Finanz Archiv*, 1890, p. 643.

finally passed the 3 per cent. rate is retained only on incomes between 10,000 and 30,000 marks. Then the progression begins again, and continues until the rate reaches 4 per cent. on an income of 100,000 marks. Thereafter this remains the uniform rate per cent. estimated on the minimum income of each class; or, in other words, the tax increases 200 marks for every 5,000 marks' increase of income.* Speaking generally, then, the effect of the new law is to lower the tax on incomes under 10,000 marks and increase it on higher incomes. And even for incomes between 10,000 and 30,000 marks, where the rate is nominally, as before, 3 per cent., there is really an increase of taxation resulting: first, from the increase in the number of classes; and, secondly, from the fact that the tax is now 3 per cent. of the *mean* instead of the *minimum* income in each class. To illustrate: under the old law an income between 14,400 and 16,800 marks was rated in class 12 and assessed 432 marks; under the new law this income would be taxed as follows:—

<i>Class.</i>	<i>Income.</i>	<i>Tax (= 3 per cent. of the mean income).</i>
30	13,500–14,500	420
31	14,500–15,500	450
32	15,500–16,500	480
33	16,500–17,500	510

There is here, then, a slight reduction in the tax on incomes between 14,400 and 14,500 marks, but above that point the tax is more than it was under the old classification. (See Appended Table, p 226.)

In the assessment of small incomes, the Prussian law has always favored the tax-payer by granting a partial or complete abatement of his tax, if he had to support a large family, or contend with any special misfortunes or disadvantages, such as serious cases of sickness, accident, fire, floods, or debt. This

* It must not be forgotten that these rates by no means give the full amount of the income tax. The communal sur-taxes must be added to the state tax, and often have the effect of more than doubling the rates given above.

was a feature of the class tax of 1851.* The law of 1873 retained this feature, and introduced it for the two lowest grades of the income tax as well,† so that all tax-payers whose incomes did not exceed 4,200 marks were entitled to this special consideration, although under the income tax the reduction could not be carried farther than to the next lower rate. The law of 1891 gives a still wider application of this principle, by permitting a reduction of the tax to an extent not exceeding three grades on account of "any special economic conditions which seriously impair the efficiency (*Leistungsfähigkeit*) of the tax-payer whose taxable income does not exceed 9,500 marks. The exact nature of the special economic conditions is not more definitely described, but presumably the intention is to include such cases as were expressly mentioned in previous laws. The case of children in the family, however, is especially provided for; and, while the reduction is confined to the incomes under 3,000 marks,—a return in this case to the limit of 1851,—it is not as before simply permitted, but is required and definitely regulated by law, since for every dependent member of the family under fourteen years of age 50 marks must be deducted from the taxable income of the head of the family.‡ This of itself would not in every case produce a reduction of the tax; but the law further provides that, if there are three or more such members in the family, the tax itself must, at all events, be reduced by at least one grade.

One other new feature in this law is the taxation of corporations and stock companies, which must now pay the income tax on all dividends and net earnings above $3\frac{1}{2}$ per cent. of the capital paid in. The dividends are of course also included in the income of the stockholder, and, if he is a Prussian, are taxed as such. This results in the double taxation of the excess above $3\frac{1}{2}$ per cent.; but in this way and to this extent

* See *Veranlagungsgrundsätze*, §§ 19 and 20, in *Zeitschrift des preussischen statistischen Bureaus*, Bd. 8 (1868).

† Gesetz vom 25 Mai, 1873, §§ 7 and 20.

‡ See §§ 18, 19, of the law of 1891. An income of 950 marks will now be exempt from taxation if there is one child under the age of fourteen in the family, an income of 1,000 marks if there are two such children, and so on.

the foreign stockholder is taxed once, which seems to have been regarded as a strong argument in support of this provision. The double taxation of the Prussian stockholder may, perhaps, be defended on the principle of the higher taxation of funded incomes, which, as we have seen, was a feature of the unsuccessful tax bill of 1847; but the provision appears to be simply a compromise between the desire to tax the foreign stockholder and the opposition which might be made against taxing the Prussian stockholder twice on the full amount of his dividends.

Thus the development of personal taxation in Prussia has resulted in the adoption of a partially progressive income tax. The general tendency of each reform may be more clearly seen, perhaps, if we indicate briefly the steps by which this result has been reached.

1. A uniform poll tax, 1811.
2. A class tax, collecting somewhat more from the prosperous and not less from the poor, 1820–21.
3. To supplement the class tax, an income tax with comparatively few classes, a uniform rate, and a maximum limit, 1851.
4. Classification made finer, the maximum limit removed, and the class tax made practically an income tax, with a progressive rate, and the exemption of incomes up to 420 marks, 1873.
5. Exemption of incomes up to 900 marks, reduction of the remaining rates of the class tax and of the two lowest rates of the income tax, 1881–83.
6. The principle of progression extended to all incomes under 100,000 marks, incomes under 10,000 marks taxed less than before, and higher incomes more; a declaration of income by the tax-payer required, and a finer classification adopted, 1891.

In connection with this *résumé* it may be well to note that such progression as existed in the rates on small incomes previous to this latest reform was probably not a true recognition of the progressive principle of taxation, but simply a reduction of the regular rate made in view of the fact that the indirect taxes collect proportionally more from the smaller incomes than from the larger, so that, when we consider the

tax system as a whole, the aim was not progressive, but simply proportional taxation. Such a reduction from the normal or uniform rate German writers designate as degressive taxation. In the new law, however, the progressive principle finds a distinct although partial application, since in collecting 4 per cent. from incomes of 100,000 marks or more and only 3 per cent. or less from incomes under 30,000 marks it is manifestly the intention that the rich shall contribute, not simply more proportionally than the poor, but also more than men of moderate means. Strictly considered, then, this is not an extension of the progressive principle, but its introduction.*

In this and other respects the latest reforms show clearly the influence of those principles of taxation which have been ably advocated by Professor Wagner and, from a somewhat different standpoint, by other leading political economists of Germany. These principles seem to be growing in popular favor, and likely to exert an increasing influence on future legislation. The watchword of the German school of economists, *Besteuerung nach Leistungsfähigkeit*, may be regarded as a translation of Adam Smith's well-known phrase "taxation according to the respective abilities of the subjects of the state,"—a true Bunsbyan principle, however, of which the bearing lies wholly in the application. As interpreted by Wagner and his followers, it demands the exemption from direct taxation at least of the "existence minimum," or the small incomes which are only sufficient for the necessities of life, the progressive taxation of other incomes, and higher rates on the earnings of land and capital than on those of labor. This last principle is not openly recognized in the new law, but it is practically fulfilled in Prussia by coexisting separate taxes on land, buildings, and industries, as well as by the tax on corporations already referred to.† Without attempting to predict what the next reforms will be, we may safely say that the income tax is destined to play a still more important

* It may be noted that in the communal sur-taxes the progression has often been carried much farther and made much sharper than in the state tax. See Neumann, *Einkommensteuer*, p. 112 *et seq.*

† "Eine Mehrbelastung des fundierten Einkommens" was one object of the proposed inheritance tax,—a feature of the government programme which the Landtag rejected.

rôle in state taxation; for the finance minister, in explaining the government programme, has assured the Landtag that as soon as possible, and in so far as the expected increase of revenue from the income tax permits, land and buildings shall cease to be taxed by the state and be reserved as objects of local taxation only. Indeed, the new law contains express provisions which have this end in view.* This is a reform which has long been demanded, and is not yet so near at hand, perhaps, as the assurances of the finance minister would seem to indicate. When it comes, it will be another step in the direction of that division of the sources of imperial, state, and local revenues—advocated by Gneist and others—which would assign taxes on consumption to the empire, direct personal taxes to the states, and taxes on real property to the communes.

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* It is provided that the receipt from the income tax above a certain limit—80,000,000 marks for the year 1892-93, with an increase of 4 per cent. for each subsequent year—shall be applied to the above purpose. If, however, that is not done, the rates of the income tax must be reduced until the receipts come within the designated limit. See §§ 82-84. This last provision was doubtless inserted to assure the Landtag that the government was not covertly aiming at an increase of taxation, since the limit is not above what the estimated receipts of the old class and income tax would have been for the next two or three years.

TABLE

SHOWING THE TAXES IMPOSED ON INCOMES FROM 3,000 UP TO
105,000 MARKS BY THE LAWS OF 1851, 1873, AND 1891.

<i>Income.</i>	<i>Tax.</i>			<i>Income.</i>	<i>Tax.</i>		
	1851	1873	1891		1851	1873	1891
3,000-3,300	90	90	60	25,200-25,500	648	756	750
3,300-3,600	"	"	70	25,500-26,500	"	"	780
3,600-3,900	108	108	80	26,500-27,500	"	"	810
3,900-4,200	"	"	92	27,500-28,500	"	"	840
4,200-4,500	126	126	104	28,500-28,800	"	"	870
4,500-4,800	"	"	118	28,800-29,500	864	864	"
4,800-5,000	144	144	"	29,500-30,500	"	"	900
5,000-5,400	"	"	132	30,500-32,000	"	"	960
5,400-5,500	"	162	"	32,000-32,400	"	"	1,040
5,500-6,000	"	"	146	32,400-34,000	"	972	"
6,000-6,500	180	180	160	34,000-36,000	"	"	1,120
6,500-7,000	"	"	176	36,000-38,000	1,080	1,080	1,200
7,000-7,200	"	"	192	38,000-40,000	"	"	1,280
7,200-7,500	216	216	"	40,000-42,000	"	"	1,360
7,500-8,000	"	"	212	42,000-44,000	"	1,260	1,440
8,000-8,400	"	"	232	44,000-46,000	"	"	1,520
8,400-8,500	252	252	"	46,000-48,000	"	"	1,600
8,500-9,000	"	"	252	48,000-50,000	1,440	1,440	1,680
9,000-9,500	"	"	276	50,000-52,000	"	"	1,760
9,500-9,600	"	"	300	52,000-54,000	"	"	1,840
9,600-10,500	288	288	"	54,000-56,000	"	1,620	1,920
10,500-10,800	"	"	330	56,000-58,000	"	"	2,000
10,800-11,500	324	324	"	58,000-60,000	"	"	2,080
11,500-12,000	"	"	360	60,000-62,000	1,800	1,800	2,160
12,000-12,500	360	360	"	62,000-64,000	"	"	2,240
12,500-13,500	"	"	390	64,000-66,000	"	"	2,320
13,500-14,400	"	"	420	66,000-68,000	"	"	2,400
14,400-14,500	432	432	"	68,000-70,000	"	"	2,480
14,500-15,500	"	"	450	70,000-72,000	"	"	2,560
15,500-16,500	"	"	480	72,000-74,000	2,160	2,160	2,640
16,500-16,800	"	"	510	74,000-76,000	"	"	2,720
16,800-17,500	"	504	"	76,000-78,000	"	"	2,800
17,500-18,000	"	"	540	78,000-80,000	"	"	2,900
18,000-18,500	540	"	"	80,000-82,000	"	"	3,000
18,500-19,200	"	"	570	82,000-84,000	"	"	3,100
19,200-19,500	"	576	"	84,000-86,000	"	2,520	3,200
19,500-20,500	"	"	600	86,000-88,000	"	"	3,300
20,500-21,500	"	"	630	88,000-90,000	"	"	3,400
21,500-21,600	"	"	660	90,000-92,000	"	"	3,500
21,600-22,500	648	648	"	92,000-94,000	"	"	3,600
22,500-23,500	"	"	690	94,000-96,000	"	"	3,700
23,500-24,500	"	"	720	96,000-98,000	2,880	2,880	3,800
24,500-25,200	"	"	750	98,000-100,000	"	"	3,900
				100,000-105,000	"	"	4,000